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## **Audit firm executives under pressure: a discursive analysis of legitimisation and resistance to reform**

### **Abstract**

The UK audit profession is facing a crisis of public trust and legitimacy following a series of high-profile audit failures. This resulted in the executive leadership of UK audit firms being summoned before a House of Commons Select Committee as part of its inquiry into 'the future of audit'. During this inquiry the audit executives walked a tightrope, to both defend the social contract from an existential threat and attempt to influence policy reforms in their favour. This paper draws on 'neutralisation techniques' from deviance theory and the 'grammar of legitimation' from legitimacy theory to inform a discursive analysis of how auditors use strategic rhetoric to defend their professionalism and maintain their social contract to operate, all the while attempting to affect policy outcomes to align with their firms' economic interests. Data for this study are drawn from the 'oral evidence sessions' and submitted 'written evidence' provided by the audit firm leadership. Our findings illustrate how the auditors construct a variety of strategic rationalisations, couched in moral ideals, to effectively deny responsibility for corporate financial scandals while simultaneously identifying with the 'victims' of audit failures and representing themselves 'heroically', as indispensable solution-bearers, not problem-causers. Their application of logic and language is cleverly designed to defend existing practices, neutralize the allegations of the inquiry, and provide the basis for advocating preferred policy outcomes. We show how, in this UK regulatory context, the Big Four are again successful in diluting and delaying reform, especially that which would legislate a full legal and economic split of their lucrative advisory service business from their audit business - a union which has grown in prominence in recent decades and been the focus of accusations of conflicted interests detrimental to audit quality. Evaluating legitimacy as a rhetorical and communicative process can aid regulators to render visible the means by which auditors use rhetoric to influence reform, and thereby improve democratic oversight over the profession.

**Keywords:** Auditing; Audit quality; Auditor legitimacy; Audit Regulation; Neutralization techniques; Legitimation

## 1. Introduction

Since its inception in the 19<sup>th</sup> century, the audit profession has been both a business carried out for profit and a service rendered in the public interest. The profession has undergone at least two major structural changes in recent decades in pursuit of commercial goals. Firstly, audit firms market a suite of services other than audit. They refer to themselves as ‘multidisciplinary practices’ (MDPs) or ‘professional service firms’ (PSFs) and not just ‘assurance providers’ (Dirsmith et al., 2015; Hanlon, 1996; Smith-Lacroix et al., 2012; Suddaby & Greenwood, 2005). Secondly, the supply of audit services is controlled by a small number of dominant players (the Big Four) following several mergers in the 1980s and 1990s. The Big Four now audit most of the publicly listed companies globally and attract premium fees based on market perceptions of superior quality in comparison to smaller rivals (Carson et al., 2012; Gerokos & Syverson, 2015).

The diversification of professional offerings by audit firms and their monopolisation of assurance services have been at the forefront of disputes with regulators, most notably after high profile failures such as the collapse of Enron in 2001 and the global financial crisis (GFC) in 2008/09. For example, in 2010, in response to audit quality concerns, the European Commission (EC) initiated “the most extensive review of the European audit market ever conducted” (Horton, Tsipouridou, & Wood, 2018, p. 997). Far-reaching reform was enacted in the European Union (EU), including the controversial mandating of periodic rotation of audit firms and stricter prohibitions against the performance of non-audit services for audit clients. Nevertheless, the influence of various interests, including those of the Big Four, resulted in ‘watered down’ versions of what was originally tabled by the EC (Horton et al., 2018). Such influence has been a feature in other jurisdictions where additional external regulation of the audit profession has been proposed (Canning & O’Dwyer, 2013; Malsch & Gendron, 2011; Reid & Carcello, 2017). Hottgindre et al. (2022) show how the Big Four employed strategies of both ‘coalition’ and a ‘manipulation’, underpinned by their technical audit knowledge superiority (relative to civil servants and politicians), to affect the EU audit reform process. Furthermore, they showcase the importance for researchers not to neglect the invisible strategies of the Big Four (‘behind the scene’ negotiation) influencing regulatory outcomes. Congruous with this priority to ‘open the black box’ of audit regulatory processes to understand the various influences behind audit reform outcomes, researchers must continue to shed light on the rhetorical techniques employed by auditors, in both their visible and invisible lobbying.

Despite efforts to regulate auditors’ independence and the levels of audit quality, corporate failures and poor regulatory inspection outcomes continue to occur, fuelling the demand for further regulatory intervention and raising questions about the continuing relevance of the audit profession (Cooper & Robson, 2006; Dowling et al., 2018; Sikka, 2009; van Brenk et al., 2022; Westermann et al., 2019). Faced with a crisis of confidence in the ‘rituals of verification’ enacted by auditors, regulators search for ‘alternative institutional arrangements’ (Canning & O’Dwyer, 2013). In the UK, several recent high-profile corporate failures have resulted in the establishment of independent commissions and government inquiries (The Economist, 2018a, 2018b). Change appeared inevitable:

*The audit market is broken. The Big Four’s overwhelming market domination has failed to deliver audits which are fit-for-purpose. (Reeves, 2019)*

Current experiences in the UK offer an opportunity to further our understanding of how auditors, especially the Big Four, employ rhetoric to defend their integrity and resist costly and disruptive changes to the status quo. In 2018/19, as part of an inquiry into actual or perceived audit failures and ‘the future of audit’<sup>1</sup>, senior UK audit firm executives were summoned to appear in two sessions before Members of Parliament (MPs) who form the House of Commons Business, Energy and Industrial Strategy (BEIS) Select Committee (the ‘BEIS Committee’ or simply the ‘Committee’). The MPs on the BEIS Committee, despite opposing political affiliations, were united in their frustrations over the inability of auditors to prevent costly scandals, their resolve to hold auditors to account and their desire to implement significant reform. The UK audit firms faced a direct challenge to their legitimacy as they were confronted with awkward and probing questions by politicians who challenged their commitment to serve the public interest over their own economic agenda.

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<sup>1</sup> This was the official name of the inquiry and report issued by the BEIS Committee (House of Commons, 2019).

To deepen our understanding of how auditors mobilize rhetoric to defend existing structures and practices (van Leeuwen, 2007; Van Leeuwen & Wodak, 1999), neutralize specific accusations of misconduct (Sykes & Matza, 1957) and influence policy outcomes (Oliver, 1991), we employ a theoretical framework adapted from deviance theory (Sykes & Matza, 1957). This is in contrast to much of the audit research which relies on legitimacy theory to explore how auditors seek to maintain their social license to operate. We feel that deviance theory is more appropriate for dealing with a situation where, in the eyes of a parliamentary committee faced with recent corporate failures, audit firms are seen as ‘delinquents’ operating contrary to the public interest. Deviance theory provides a theoretical lens to perform a novel and direct assessment of how auditors employ rhetoric to legitimize their performance as a profession and deflect criticism before an authority (their ‘accusers’) capable of implementing major reform.

Our analysis makes an important empirical contribution by iterating how discourse is used to legitimize practices, down-play failures and maintain the social contract which allows audit firms to exist in their current form (Carnegie & Napier, 2010; Dermarkar & Hazgui, 2022; Malsch & Gendron, 2013; Maroun & Solomon, 2014; O’Dwyer, Owen, & Unerman, 2011; Suddaby & Greenwood, 2005; Whittle, Carter, & Mueller, 2014). We respond to calls for a more detailed micro-level analysis of how auditors engage with regulators in an “agentic” process where “meaning is actively negotiated” (Suddaby et al., 2017, p. 460) rather than taking the traditional approach of audit firms managing legitimacy as a type of organisational resource (see Suchman, 1995). As explained by Dermarkar and Hazgui (2022) and Guo (2016), ‘micro-level interpretations’ by influential audit actors reveal how communication and the “process of collective meaning-making” (Suddaby et al., 2017, p. 460) influence the credibility of the audit profession by repositioning deviant behaviour and softening criticism from those tasked with overseeing auditors.

Research examining how rhetoric is used to gain or repair legitimacy tends to focus on interviews with practitioners (Dermarkar & Hazgui, 2022; Spence, Zhu, Endo, & Matsubara, 2017) where data are collected in benign settings, free of any regulatory scrutiny. In most interpretive studies, auditors (typically not global- or national- level leadership) are asked by researchers (who have no authority over the auditors) to justify their practice or views on specific matters (e.g., Dermarkar & Hazgui, 2022; Harber & Maroun, 2020). In contrast, opportunities to examine rhetoric surrounding intense regulatory scrutiny by influential and agentic actors (Berger & Luckmann, 1966; Canning & O’Dwyer, 2013; Oliver, 1991) is sparse. When auditors face an interrogation by legislators, to whom even the regulator is accountable, the risk of highly onerous reform is greater (Harber & Willows, 2022; Horton et al., 2018; Reid & Carcello, 2017). Since the GFC there have been few, if any, opportunities where the most senior leadership of the audit firms stand accused by a legislative body eager to institute reform and the rhetoric employed by audit firm leaders may be examined.

The parliamentary inquiry was in response to the “crisis of trust in the industry”, with the express intention of indicating “how reforms can be implemented in a coherent and timely manner” (House of Commons, 2019, p. 3). The inquiry cuts to the heart of what it means to be entrusted to serve the public interest with the requisite degree of integrity and expertise. The questioning is probing and, at times, confrontational. Extensive and highly disruptive policy reform is proposed, most notably the controversial suggestion of a complete legal and economic split of the audit and advisory sides of the audit firms’ businesses. These proposals clearly present adverse economic consequences for the Big Four.

Our findings illustrate how the auditors construct a variety of strategic rationalisations, what Berger and Luckmann (1966, p. 79) refer to as “a canopy of legitimations”, protecting the institutional order. These rationales are couched in moral ideals, intended to deny responsibility for corporate misconduct while simultaneously portraying auditors as ‘heroically’ battling adversity inherent in the system and championing themselves as the solution rather than the problem. Their application of logic and language does not challenge the authority of the critics, nor the damage caused by corporate scandals, but is cleverly designed to defend existing practices, neutralize the allegations of the inquiry and provide the basis for advocating preferred policy outcomes which protect the economic interests of the Big Four.

Finally, the regulatory context faced by auditors during 2019 offers an opportunity to build on Whittle et al. (2014) who examine the testimonies of auditors being questioned in 2010 by the UK House of Lords Economic Affairs Committee following the GFC. Whittle et al. (2014) show how the Big Four ‘shift’ the discourse in a ‘semantic battle’ to present themselves as ‘above the fray’, ultimately committed to professional ideals and audit quality, rather than their own selfish economic interests. Ten years after the GFC the auditors

now find themselves accused directly of misconduct which allowed the corporate scandals to occur<sup>2</sup>. As such, their responses are more deliberate, strategic and defensive. With the benefit of hindsight after this discourse, we reflect on whether the regulators have been able to implement meaningful changes or whether the Big Four have, once again, thwarted regulatory efforts to constrain their commercial objectives (Canning & O'Dwyer, 2013; Dermarkar & Hazgui, 2022; Lee, 1995; Malsch & Gendron, 2011; van Brenk et al., 2022).

The remainder of the paper is structured as follows: Section 2 outlines the theoretical framework. Section 3 describes the background and method. A discursive analysis is provided in Section 4. We conclude the paper by discussing the study's contribution to prior research and the implications of our theoretical analysis in Section 5.

## 2. Theoretical framework

Legitimacy has emerged as a key construct in organizational studies (Malsch & Gendron, 2013; Meyer & Rowan, 1977; Suchman, 1995; Suddaby et al., 2017), being defined as a “generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions” (Suchman, 1995, p. 574). The concept is traditionally viewed as an organisational resource or property (Suddaby et al., 2017), rather than, as we intend to view it, a social construct, malleable and adaptable through the rhetoric of influential actors within institutions. Such research tends to recognize the social constructivist theory of Berger and Luckmann (1966), which at its core demonstrates that it is via the actions and beliefs of individuals ('actors') that logics and institutions are enacted, maintained, and developed (Dermarkar & Hazgui, 2022).

*Institutionalization occurs whenever there is a reciprocal typification of habitualized actions by types of actors... What must be stressed is the reciprocity of institutional typifications and the typicality of not only the actions but also the actors in institutions... Reciprocal typifications of actions are built up in the course of a shared history. They cannot be created instantaneously.* (Berger & Luckmann, 1966, p. 72)

### 2.1. Legitimacy as a social construct

In response to institutional pressures, organisations must make concerted efforts to align the perceptions of their actions with societal values, in order to survive (Oliver, 1991; Suchman, 1995; Suddaby et al., 2017). This is also true of professions (Carnegie & Napier, 2010; Malsch & Gendron, 2013; Schinkel & Noordegraaf, 2011). To gain and maintain legitimacy, a profession must conform to its 'social contract', which requires performance and outcomes congruous with whatever is deemed to be 'in the public interest' (Carnegie & Napier, 2010). Within the audit profession this expectation centres around the prevention of financial irregularities, improper accounting practices and fraud in audited organisations (Dellaportas & Davenport, 2008; Hopwood, 1989; Knechel, Krishnan, Pevzner, Shefchik, & Velury, 2013; Malsch & Gendron, 2011). Society bestows on the audit profession the monopoly right to perform audit services and auditors reciprocate by guarding the financial integrity of audited entities and safeguarding capital markets. Should the public and their elected representatives no longer believe that auditors are operating effectively, auditors risk having their social license revoked (Carnegie & Napier, 2010; O'Regan & Killian, 2014).

Framed in this way, legitimacy is an operational resource at the collective level of the organizational field which must be secured by an entrant to the market and maintained by an incumbent in order to exist and operate. While this perspective on legitimacy has been used extensively to demonstrate how organisations secure the support of influential constituents (Suchman, 1995; Suddaby et al., 2017; Suddaby & Greenwood, 2005), it is not without limitations. Most notable is the proliferation of multiple types, characteristics or attributes of legitimacy, which have not been verified empirically (Phillips & Malhotra, 2008; Suddaby et al.,

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<sup>2</sup> In our setting the audit executives have specific audit failures being held to their account; corporate scandals which have caused high-profile social and economic losses. Resultant court cases were ongoing, with some rulings to date, as is the case with British Home Stores (BHS), finding auditors guilty of negligent practice. This context is thus different from that of Whittle et al. (2014) post the GFC where the auditors were not directly being blamed and did not face court challenges which produced adverse findings against them.

2017). In addition, if legitimacy can be possessed by an organization, how are different conceptions of legitimacy measured and distinguished from each other? Suddaby et al. (2017, p. 458) describe these limitations as an epistemological issue:

*While the idea of congruence between attributes of an organization and elements of its social and cultural environment is intuitively appealing, it is based on the assumption that the component elements of the equation - legitimacy, the organization, the social environment - are stable, universal, and enduring properties.*

As observed by Hybels (1995, p. 243), viewing legitimacy as a “property” is problematic as it is “both part of the context for exchange and a by-product of exchange”. Yet, when viewed as a social construct, legitimacy may be considered an ongoing communicative process of exchange. This conceptualization of legitimacy as a process rather than a property draws heavily from social constructionist theory of Berger and Luckmann (1966, p. 112) who explain that “fundamental legitimating ‘explanations’ are... built into the vocabulary”. For Berger and Luckmann (1966, p. 79) any institutional order requires legitimation or “ways by which it can be explained and justified”. These orders are not fixed and do not exist independent of human actors and social context: “the social world was made by men - and, therefore, can be remade by them” (p. 106). This is achieved primarily using language and discourse. To ‘institutionalize’ practices and beliefs, individuals must deliberately act to convey and maintain meanings, requiring constant legitimation and persuasive rhetoric “to stabilize and diffuse the values, beliefs, and rules that it creates” (Berger & Luckmann, 1966; Dermarkar & Hazgui, 2022, p. 2). Legitimacy can then be evaluated as a communicative process of collective meaning-making propagated through discourse (Nielsen & Rao, 1987; Suddaby & Greenwood, 2005; Zilber, 2006) among actors possessing a high degree of agency. As such we can say that these actors “construct legitimacy” within their organizations and professional fields (Suddaby et al., 2017, p. 460). Researchers can then focus not on the ‘static state’ or the ‘properties’ of the institutional legitimacy, but on the communicative ‘process’ and evolving key meanings which are ‘constructed’ (see, Dermarkar & Hazgui, 2022; Johansen & Nielsen, 2012; Pansardi & Battegazzorre, 2018; Perkiss, Bernardi, Dumay, & Haslam, 2021; Vaara, Tienari, & Laurila, 2006; Van Leeuwen, 2007). As a social construction, legitimacy is specific to context, open to negotiation between actors, and perpetually changing as the influence of the actors in the dialogue (and the content thereof) varies.

## 2.2. *Typologies of legitimation rhetoric*

Van Leeuwen and Wodak (1999) and Van Leeuwen (2007), provide a useful ‘grammar of legitimation’ which has been employed to interpret actor legitimation techniques in various settings (Johansen & Nielsen, 2012; Vaara, 2014; Vaara et al., 2006; Van Leeuwen & Wodak, 1999), including audit (Dermarkar & Hazgui, 2022; Harber & Willows, 2022). This typology lays out various ‘discursive forms’ of legitimation rhetoric. It “sets out a framework for analysing the way discourses construct legitimation for social practices in public communication” (Van Leeuwen, 2007, p. 91). Pansardi and Battegazzorre (2018) use the framing to interpret speeches by the Presidents of the European Commission and Johansen and Nielsen (2012) examine the ‘self-storying’ narrative by an organization promoting their corporate social initiatives. Dermarkar and Hazgui (2022) apply the framework to interviews with Canadian and French auditors attempting to legitimize their commercial incentives as auditors. The typology recognizes that actor legitimation can be explicit and obvious yet, at times, unintentional with the actor not specifically conscious of the legitimation technique but rather displaying unconscious bias towards a type of behaviour (van Leeuwen, 2007).

Four discursive forms or techniques are described, each being a category to place “an answer to the spoken or unspoken ‘why’ question - ‘Why do we act like this?’ or ‘Why should we do this in this way?’” (Van Leeuwen, 2007, p. 93). To justify oneself, an actor may (1) appeal to an authority of some kind (termed, *authorization*), (2) appeal to an established set of moral ideals (termed, *moralization*), (3) reason for the utility (purpose) of the activity or its necessity given the unavoidable nature of things (termed, *rationalization*), or (4) use anecdotal story or narrative to illustrate positive or negative outcomes (termed, *mythopoesis* or *storytelling*)<sup>3</sup>.

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<sup>3</sup> A helpful summary and illustration of the four techniques is provided by Harber and Willows (2022), Table 1.

*These forms of legitimation can occur separately or in combination. They can be used to legitimize, but also to de-legitimize, to critique. They can occupy the best part of specific instances of text and talk which may hardly refer to what it is that is being legitimized, or they can be thinly sprinkled across detailed descriptive or prescriptive accounts of the practices and institutions they legitimize. (Van Leeuwen, 2007, p. 92)*

Van Leeuwen's typology is useful in examining rhetoric deployed within 'normal' discourse but may be of limited use to describe and interpret more accusatory and confrontational discourse. Given the nature of our paper's discourse and context, demonstrating active rhetorical resistance within a confrontational setting, we sought a rhetorical analytical framework from deviance theory and employed Van Leeuwen's 'grammar of legitimation' to *support* our analysis where applicable.

### 2.2.1. Neutralization techniques from deviance theory

According to Sykes and Matza (1957, p. 665) and Minor (1981), criminals and delinquents attempt to 'neutralize accusations' in various ways and, in substance, legitimize their behaviour (Siebert et al., 2020; Sykes & Matza, 1957). Deviance theory provides an explanation for how accusations are 'neutralized', moral culpability is denied, and feelings of guilt are allayed. Underpinning the theory is the idea that the accused does not appeal to a different set of societal values or a "deviant sub-culture" which turns "law-abiding... upside down". Rather, the accused is "at least partially committed to the dominant social order", frequently exhibiting "guilt or shame when he violates its proscriptions". The delinquent "accords approval to certain conforming figures and distinguishes between appropriate and inappropriate targets for his deviance" (Sykes & Matza, 1957, p. 666). As a result, the accused operates *inside* rather than outside societal values and norms but, because of the complexity of social contexts<sup>4</sup>, rationalizes deviant behaviour by arguing that the norms do not apply in their specific situation.

*The individual can avoid moral culpability for his criminal action - and thus avoid the negative sanctions of society - if he can prove that criminal intent was lacking. It is our argument that much delinquency is based on what is essentially an unrecognized extension of defences to crimes, in the form of justifications for deviance that are seen as valid by the delinquent but not by the legal system or society at large. (Sykes & Matza, 1957, p. 666)*

Theorists originally focused on delinquents and their rhetoric to deal with feelings of guilt by employing any one or more of five 'sympathetic disclaimers' or 'techniques of neutralization'. These provide a "semantic haven for the potentially labelled deviant by furnishing exculpatory motives for engaging in disreputable behaviour" (Nelson & Lambert, 2001, p. 86). Delinquents employ the techniques to protect themselves "from self-blame and the blame of others after the act" (Sykes & Matza, 1957, p. 666). Sykes & Matza (1957) formulated deviance theory from observations of mostly young and unsophisticated offenders, but the neutralisation techniques apply equally to older, "well-educated and verbally adept" actors "who inhabit an environment whose currency is quintessentially verbal" (Nelson & Lambert, 2001, p. 86).

Here we consider the five techniques proposed by Sykes and Matza (1957), together with additional categories developed by subsequent research (i.e., Burke, 1969; Minor, 1981; Nelson & Lambert, 2001; Siebert et al., 2020), which may then be relevant for studying the 'deviant' auditor:

(1) The **denial of responsibility** ('not my fault!')

The deviant behaviour is presented as an understandable or forgivable accident or the result of forces outside of the accused's control. For example, delinquents may appeal to the family environment in which they were raised or the broader cultural and social factors which informed their *modus vivendi*.

(2) The **denial of injury** ('no one was hurt!')

By rationalising the morality of the behaviour, the accused effectively denies any wrongdoing, or more specifically, denies any immoral act. Sykes & Matza (1957) provide the example of a delinquent who refers to vandalism as only 'mischief' and argues that the 'victim' can afford to repair what was damaged.

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<sup>4</sup> What Sykes and Matza (1957) refer to as 'flexibility'.

- (3) The *denial of the victim* ('they deserved what they got!')  
This requires the accused to argue that the so-called 'victim' was not actually hurt or, if the person was injured, that this was their own fault. "By a subtle alchemy, the delinquent moves himself into the position of an avenger and the victim is transformed into a wrong-doer" (Sykes & Matza, 1957, p. 668). For example, during the GFC, bankers argued that investors in risky derivative products should have known the risks they were taking (Siebert et al., 2020).
- (4) The *condemnation of the condemners* ('you have no right to condemn me!')  
The accused shifts the focus from their own behaviour to that of the accusers, thereby attempting to frame them as hypocrites and immoral.
- (5) The *appeal to higher loyalties* ('that is why I did it!')  
The accused presents a dilemma of competing moral loyalties such as between the interests of society and those of a vulnerable group. The accused "may see himself as caught up in a dilemma that must be resolved, unfortunately, at the cost of violating the law" (Sykes & Matza, 1957, p. 669). For example, delinquents may argue that they stole to feed their poverty-stricken family.

Several researchers have extended these descriptions of neutralisation techniques. For example, Minor (1981) refer to necessity and entitlement. *Necessity* ('I had to do it!') is as an extension of 'the appeal to higher loyalties'. If an act is perceived as necessary or unavoidable, then one need not feel guilty for performing it. *Entitlement* ('I'm a good person!') is what Minor (1981) called 'the ledger approach'; a self-administered test of the morality, achievement or contribution of the accused. A 'bank of credit' is presented as an argument to outweigh or justify some misdeeds. Burke (1969) and Siebert et al. (2020) provide evidence of another technique, *identification with the victim* ('I too was hurt!'). Here the accused either attempts to establish common ground with the accuser (or the victim) by claiming that their interests are aligned, or that both suffered loss. Siebert et al. (2020) show how this was a key defence of banking executives after the industry was blamed for contributing to the GFC. In substance, the accused parties make the argument that, because they also suffered after the alleged misconduct, they are either not the guilty party or, at the very least, did not intend harm.

Finally, recognising that the accused may be highly intelligent and sophisticated members of society, they may employ a combination of the techniques outlined above to neutralize blame. Nelson and Lambert (2001) examine the rhetoric of academics accused of bullying fellow colleagues, demonstrating what they term '*appropriation and inversion*'. In response to accusations from colleagues of intimidation, threats and/or defamatory behaviours, the accused (also academics) "claim victim status for themselves" and cleverly "redefine the situation" by painting the complainants as aggressive, wanting to "intimidate" and "destroy" their careers (Nelson & Lambert, 2001, p. 83, 102). The accused academics then further demonstrate '*evidentiary solipsism*', representing themselves "as uniquely capable of divining and defining the 'true' meaning-structure of events". 'Outsiders' attempting to investigate or to adjudicate are told (explicitly or implied) that they do not understand the complex context or setting in which the alleged wrongdoing took place. This is intended to neutralize the accuser's credibility to stand as judge by portraying phenomena "in ways that can be quite foreign to everyday constructions" (Nelson & Lambert, 2001, p. 103). As an additional safeguard, the accused academics relied on '*emotional obfuscation*' (similar to *mythopoesis*). Here rhetoric employs descriptive imagery, symbolism and a choice of words designed to elicit an emotional response in their favour, either showing the victim as the real perpetrator or re-framing the context in some other way (Nelson & Lambert, 2001, p. 83, 103).

Deviance theory, in its attempt to understand the rhetoric and motivations of the accused, is not without criticism (see, Hamlin, 1988; Minor, 1981; Nelson & Lambert, 2001; Sheley, 1980). For example, it may homogenize or objectify moral values leading to over-simplification of the social context. This is less of a concern in our setting where the idea of audit quality and adhering to prescribed professional and ethical standards are the long-established and undisputed norms within the regulatory space.

Another criticism is that deviance theory may not fully explain the direction of causality. Do the accounts of the accused provide motive for (or lead to) deviance or do they provide explanations for deviance after the behaviour is called into question? The theory does not "establish the exact temporal sequence between deviance and accounts" (Nelson & Lambert, 2001, p. 86). Nevertheless, Sykes and Matza's typology has been used



extensively in criminology and other settings, such as bankers’ defending themselves after the GFC (Siebert et al., 2020), corporate illegal activity (Dalton & Kesner, 1988), marketing and consumption of alcohol (Piacentini et al., 2012) and bullying (Nelson & Lambert, 2001).

Drawing on these various neutralization techniques, we offer additional insight into why the audit industry remains largely unreformed. We consider how auditors may assuage their feelings of guilt and responsibility when accused of audit failures and how they strategically respond to the threat of unwanted institutional change. As evidence of audit quality concerns mount against them, with major reform appearing imminent, we showcase how auditors successfully deflect and soften accusations of deviant behaviour, despite their legitimacy-deficient positioning<sup>5</sup>.

As illustrated in Table 3 and throughout the analysis section, the neutralization techniques derived from deviance theory emerge as primary in our analysis, unpacking how the executives answer the question “why are *these* corporate failures not your fault?” or “why did the audit not prevent *these* events and circumstances?”. The focus in the discourse is on recent and specific failures being held to the audit profession’s account, much like would occur in criminal proceedings. The ‘grammar of legitimation’ developed by Van Leeuwen and Wodak (1999) and Van Leeuwen (2007) is then employed to examine further nuances in the rhetoric to understand how auditors legitimize institutionalized behaviours, attitudes and practices<sup>6</sup>. As explained by Malsch and Gendron (2013, p. 889), there is an inherent conflict in audit practice in its ‘competing’ logics of commercialism and professionalism, which “must coexist in a precarious state”, in a “delicate and improbable” balancing act where neither “can afford to supplant the other”. Researchers must continue to examine the rhetoric which auditors employ to institutionalize such a normative and precarious state of affairs (Dermarkar & Hazgui, 2022; Guo, 2016; Harber & Willows, 2022; Malsch & Gendron, 2013).

### 3. Background and method

#### 3.1. Background to the Committee inquiry on the future of audit

Government oversight of auditors in the UK is the jurisdiction of the independent regulator, currently the Financial Reporting Council (FRC), the board of which is appointed by the Secretary of State for Business, Energy and Industrial Strategy (a cabinet minister). The House of Commons, as the lower house of parliament in the UK, comprising of elected Members of Parliament (MPs) and the legislative wing of government, also has oversight over the FRC and the audit profession. Our study examines a specific discourse of public cross-examination by the House of Commons BEIS Select Committee of senior audit firm executives representing the seven largest UK audit firms. This discourse forms part of the Committee’s inquiry in 2018/19 into the ‘future of audit’. Select Committees have a remit to scrutinize the policies, expenditure, and administration of their associated government department and consist of MPs representing the balance of political parties in the House of Commons. To carry out this remit, they undertake inquiries on a range of issues relevant to their department and, in the case of the BEIS Committee, inquiries which “hold businesses to account, on behalf of the public, when things go very wrong.”<sup>7</sup>

Two such inquiries were launched prior to the ‘future of audit’ inquiry, in response to each of the high-profile corporate failures of British Home Stores (BHS) in 2016<sup>8</sup> (auditor, PwC) and Carillion Plc in 2018<sup>9</sup> (auditor, KPMG). Reports by the joint Select Committees for each of these inquiries presented a damning indictment on auditors for failure to forewarn investors and the public of the evident financial troubles in these

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<sup>5</sup> From our data we analyse public discourse only, not the ‘invisible strategies’, ‘behind the scenes’ (Hottegindre et al., 2022). However, we recognize that auditors may engage in covert lobbying activities, both in rhetoric and action, to prevent the adoption of ‘unpalatable’ regulation.

<sup>6</sup> The distinction we are making here is simply that the ‘neutralization techniques’ are specifically helpful to understand responses to accusations of misconduct, whereas the ‘grammar of legitimation’ is better suited to understanding the legitimations contained in normal auditor discourse about audit practice, as was demonstrated in Dermarkar and Hazgui (2022) and Harber and Willows (2022).

<sup>7</sup> <http://data.parliament.uk/WrittenEvidence/CommitteeEvidence.svc/EvidenceDocument/Liaison/The%20effectiveness%20and%20influence%20of%20the%20committee%20system/Written/97524.html>

<sup>8</sup> <https://publications.parliament.uk/pa/cm201617/cmselect/cmworpen/54/5402.htm>

<sup>9</sup> <https://publications.parliament.uk/pa/cm201719/cmselect/cmworpen/769/76902.htm>

companies prior to their collapse. The Select Committee’s report into Carillion Plc was especially scathing of the role played by each of the Big Four accounting firms which had separately provided the company with external audit, internal audit, advisory, and liquidation services. Specifically, KPMG (as the appointed external auditor) is facing legal challenge for not raising qualified audit opinions and emphasising the going concern risks when the business was over £7 billion in debt, incurring trading losses and effectively bankrupt<sup>10</sup>. Of particular contention was the fact that Carillion, while in this state of financial distress, was ‘allowed’ (without objection from KPMG) to pay substantial dividends to shareholders at the expense of creditors. Only a few weeks prior to the inquiry on which this paper is based, a further corporate scandal was emerging at Patisserie Valerie (auditor, Grant Thornton), “after an accounting ‘black hole’ was discovered in the company’s books, estimated at £94 million” (House of Commons, 2019, p. 6). Grant Thornton is accused of failing to identify material fraud which precipitated the corporate failure<sup>11</sup>. In the cases of BHS and Carillion, and as an example of social impact of the failures beyond the immediate job losses, there are considerable deficits in the funding of the respective pension schemes, requiring external intervention to prevent large scale financial losses to existing and past employees (House of Commons, 2019).

The Carillion inquiry’s report concluded with a recommendation to the Government to conduct a review of competition within the audit market that “...should explicitly include consideration of both breaking up the Big Four into more audit firms, and detaching audit arms from those providing other professional services” (Paragraph 213)<sup>12</sup>. The relatively rapid succession of these three high-profile failures provided the impetus for the Committee’s ‘future of audit’ inquiry and its radical proposals for audit reforms:

*“there is the option of the break up the Big Four. Either by separating non-audit from audit or by breaking them up into a larger number of companies. No options should be off the table when the problems are so severe. The question now is not whether reform is needed, but what reform will increase competition, improve audit quality, and reduce conflicts of interest.”*<sup>13</sup>

The inquiry cited at least ten recent corporate failures preceding those of BHS, Carillion and Patisserie Valerie (see paragraph 60, House of Commons, 2019). The audit executives were summoned on the assumption that auditors’ professionalism was compromised, likely due to their commercial incentives. The MDP business model of the Big Four, which incentivized prioritising their non-audit (advisory) over audit services, and their overall dominance of the market was especially under scrutiny.

*“Critics have also questioned whether auditors are conflicted by their relationships with their clients. Several commentators have argued that audit firms are conflicted by the temptation to sell non-auditing services, which are more lucrative, and because they are auditing the very people they are being paid by and looking to be re-appointed by.”* (House of Commons, 2019, p. 9)

By separating advisory services from the business and promoting enhanced competition in the market with more frequent rotation of clients, regulators believe that improved audit quality will result, and future corporate scandals can be prevented.

*“the continued domination of the Big Four together demonstrate that these reforms [to date] have proved totally ineffective in increasing competition and delivering acceptable quality of audits”* (House of Commons, 2019, p. 82)

It is within this context that the chair of the BEIS Committee launched the inquiry on 12 November 2018 with a keynote speech in London (Reeves, 2018). The final report was published in April 2019 (House of Commons, 2019). Borne from the same concerns and occurring concurrently with the BEIS Committee inquiry,

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<sup>10</sup> As of 2022, KPMG is still the subject of “unprecedented legal action”, being sued by government officials for £1.3bn (The Guardian, 2022).

<sup>11</sup> In 2021 Grant Thornton was fined £2.3m and accused by the FRC of a “serious lack of competence” during the audit (The Guardian, 2021).

<sup>12</sup> [https://publications.parliament.uk/pa/cm201719/cmselect/cmworpen/769/76908.htm#\\_idTextAnchor175](https://publications.parliament.uk/pa/cm201719/cmselect/cmworpen/769/76908.htm#_idTextAnchor175)

<sup>13</sup> <https://old.parliament.uk/business/committees/committees-a-z/commons-select/business-energy-industrial-strategy/news-parliament-2017/future-audit-inquiry-speech-17-19/>

was the independent review of the FRC led by Sir John Kingman, called the ‘Kingman Review’, and the review into the statutory audit market by the Competition and Markets Authority (CMA). The Kingman Review report was published in December 2018 and the CMA report in April 2019<sup>14</sup>, shortly before and after the report by the BEIS Committee respectively. The proceedings of the BEIS Committee’s inquiry make frequent reference to these two regulatory reviews.

### 3.2. Method

The audit firm executives gave what was called “witness evidence” in an oral evidence session under examination before the Committee on Wednesday 30 January 2019 in two sessions. The transcripts and video recordings of each session were published on the UK parliament website<sup>15</sup>. The transcribed document for the proceedings was 46 pages (both sessions). Approximately 132 and 170 separate questions were asked of the attendees by the Committee in the first and second sessions respectively. Panel A of Table 1 details the Committee members. The Big Four together with Grant Thornton, BDO, Mazars (representing ‘mid-tier’ firms) and the Association of Practising Accountants (APA) (representing small firms), were represented by members of their respective executive leadership, as detailed in Table 1, Panel B. As numbered in the transcripts, there are sometimes multiple respondents to each question posed by the Committee, with follow-on discussion from members of the Committee. In addition to dealing with the Committee’s questions, the audit firms provided written submissions (termed ‘written evidence’) to the inquiry. These submissions are summarized in Table 2.

**Table 1**  
BEIS Committee members and audit executives

<i>Panel A: Committee members</i>		
<b>Member of Parliament (MP)</b>	<b>Party affiliated (Constituency)</b>	
Rachel Reeves (Chair)	Labour (Leeds West)	
Vernon Coaker	Labour (Gedling)	
Stephen Kerr	Conservative (Stirling)	
Peter Kyle	Labour (Hove)	
Mr Ian Liddell-Grainger	Conservative (Bridgwater and West Somerset)	
Sir Patrick McLoughlin	Conservative (Derbyshire Dales)	
Mark Pawsey	Conservative (Rugby)	
Antoinette Sandbach	Conservative (Eddisbury)	

  

<i>Panel B: Audit executives</i>		
<b>Audit executive</b>	<b>Audit firm (Position)</b>	<b>Identifier</b>
<i>Session 1</i>		
David Dunckley	Grant Thornton (UK CEO)	GT01
Scott Knight	BDO (UK Head of Audit)	BDO01
Clive Stevens	Association of Practising Accountants (Chairman)	APA01
Jac Berry	Mazars (UK Head of Quality and Risk)	Mazars01
<i>Session 2</i>		
David Sproul	Deloitte (UK Senior Partner and CEO)	Deloitte01
Steve Varley	EY (UK Chairman)	EY01
Bill Michael	KPMG (UK Senior Partner and Chairman)	KPMG01
Kevin Ellis	PwC (UK Senior Partner and Chairman)	PwC01

<sup>14</sup> The Kingman Review report was accessible here: <https://www.gov.uk/government/publications/financial-reporting-council-review-2018> (Last accessed: 11 March 2022). The CMA report was accessible here: <https://www.gov.uk/cma-cases/statutory-audit-market-study#final-report> (Last accessed: 11 March 2022)

<sup>15</sup> The video recording was accessible here: <https://www.parliamentlive.tv/Event/Index/6829d379-d193-4db2-8ad2-17830685dd5c>. (Last accessed: 06 July 2021)

The transcripts, published as HC 1718, were accessible here: <http://data.parliament.uk/WrittenEvidence/CommitteeEvidence.svc/EvidenceDocument/Business,%20Energy%20and%20Industrial%20Strategy/Future%20of%20Audit/Oral/95825.html>. (Last accessed: 06 July 2021)

**Table 2**

Written evidence submitted by selected audit firms

<b>Audit firm</b>	<b>Signing author (Position)</b>	<b>Document number (Word count)</b>	<b>Identifier</b>
Grant Thornton	<i>None</i>	FOA0029 (3,565)	GT02
BDO	Scott Knight (UK Head of Audit)	FOA0020 (842)	BDO02
Mazars	<i>None</i>	FOA0025 (3,572)	Mazars02
Deloitte	David Sproul (UK Senior Partner and CEO)	FOA0017 (3,363)	Deloitte02
EY	Steve Varley (UK Chairman)	FOA0022 (1,434)	EY02
KPMG	Bill Michael (UK Senior Partner and Chairman)	FOA0009 (4,444)	KPMG02
PwC	Kevin Ellis (UK Senior Partner and Chairman)	FAO0029 (5,612)	PwC02

### 3.2.1. Data analysis

The data are analysed interpretively, guided by the theoretical framework developed. Each of the sources (i.e., transcripts and written evidence) were subject to a preliminary review to gain a sense of content and structure. The emphasis was on the points being raised by Committee members and auditors, the order in which arguments were raised and how auditors complemented their representations with written submissions. Notes were kept highlighting key points which the researchers discussed in the context of the earlier work on different legitimization strategies/discourses employed by professional accountants and auditors.

The second stage of the analysis involved systematically coding each source. To balance the paper's exploratory potential with the need for structure, the researchers relied on a dual process of flexible open coding complemented with the use of pre-determined axial codes. The approach is consistent with earlier exploratory studies dealing with, for example, the technical construction of audit practices (e.g., Humphrey, Moizer, & Turley, 1992; Peecher, Schwartz, & Solomon, 2007), the proliferation of assurance services into new markets (e.g., Dillard & Roslender, 2011; O'Dwyer et al., 2011) and the relevance of legitimacy for enacting regulatory requirements (e.g., Guénin-Paracini & Gendron, 2010).

Each source was read several times. The video recordings of the sessions were also reviewed. This was important to form a view on the tone<sup>16</sup> of the discourse and our perception of the emotions present in the responses of the participants<sup>17</sup>. To avoid overlooking context and meaning, paragraphs and subsections served as the unit of analysis. Each was carefully examined and tagged according to how the Committee members framed the audit process and how auditors reacted to the Committee's line of questioning. Careful attention was paid to the choice of language, the tone of responses and whether positions were refuted or iterated when more than one auditor was answering the Committee's questions. This resulted in a list of rhetorical legitimations which was developed iteratively and served as open codes. As additional material was examined, the points flagged in previous sources were reconsidered, for example comparing Session 1 responses with Session 2<sup>18</sup>. The process of coding and re-coding of the sources continued until a point of theoretical saturation was achieved. The researchers discussed the coding and how specific arguments, counterarguments and examples provided by executives and committee members formed part of a discursive and dynamic legitimization

<sup>16</sup> The tone of voice used by speakers can be an important qualitative factor for the researcher to consider in their interpretation of verbal discourse (Denham & Onwuegbuzie, 2013). Our subjective assessment of the respective speakers' tone of voice is not central to our method but simply an aid to help us identify the conversations and statements which elicit strong views or emotional responses.

<sup>17</sup> During this process, some errors in the transcripts were noted. For example, the Deloitte executive (David Sproul) was incorrectly transcribed as stating that auditors have *no* duty to detect fraud.

<sup>18</sup> However, the questions from the Committee in Session 1 and 2 were not identical. This is partly because the Committee's inquiry had a greater focus on the Big Four and the Big Four business model, relative to the smaller 'mid-tier' firms.

process. During this stage of the analysis, some of the codes were merged according to the type of issues being raised and how the auditors responded.

The final stage of the data analysis involved the aggregation of codes under one or more axial codes or theme headings, aligning with the neutralization techniques from deviance theory. The objective was not to identify instances of every neutralization technique discussed in subsection 2.2, nor to ‘reconcile’ underlying theoretical stances but to provide a schematic for describing how legitimacy was being constructed and re-constructed through a process of subjective sense-making and the rebuttal of arguments being advanced by the Committee. The axial codes are summarized in Table 3 using those neutralization techniques discussed in subsection 2.2 which we were able to then identify in our analysis.

**Table 3**

Neutralization techniques identified

<b>Primary neutralization techniques identified</b> <i>(to ultimately deny responsibility for corporate failures)</i>	Illustrative codes from the data <i>(Illustrative quotes from the data in italics)</i>
<b>Appeal to a higher loyalty:</b> Integrity and professionalism are our 'higher loyalty'; "we are beyond reproach"	<ul style="list-style-type: none"> <li>- Appeals to professional ideals (integrity and expertise) and the pursuit of the public interest over commercial and reputational interests</li> <li><i>...our culture is built on acting with integrity as a core value that underpins our firm culture and is key to our licence to do business</i></li> <li><i>...because we assess quality so strongly and it impacts the individual so strongly</i></li> </ul>
<b>Evidentiary solipsism:</b> "the expectations gap"  "the audit is complex" and "we are the heroes" {includes elements of <b>identification with the victim</b> , <b>emotional obfuscation</b> and <b>entitlement</b> }	<ul style="list-style-type: none"> <li>- The public do not understand. Audit has limitations</li> <li><i>...quality is difficult to observe</i></li> <li><i>...this is not a full-on legal review of a company's operations</i></li> <li>- We comply with the auditing standards</li> <li><i>...there is a mismatch between what the statutory audit presently does, what the public expects</i></li> <li>- The investors know the risk/limitations of an audit {a subtle form of '<b>denying the victim</b>'}</li> <li>- The task is complex, but we are up to it.</li> <li>- Look at how much we care/time/effort we need to commit.</li> <li><i>...I do not want to hide behind the word "complexity", but...</i></li> <li><i>...they are a lot more complex, and the world is a lot more complex</i></li> <li>- We are the solution to the problem</li> <li><i>...we are taking action to resolve them</i></li> <li><i>...our business has responded to this reality by investing in our people and their professional development; by investing in technology</i></li> <li>- Descriptive imagery and emotional language</li> <li><i>...tools in the toolbox ...standing on the side lines ...a lot of soul searching</i></li> </ul>
<b>Entitlement:</b> the 'bank of credit'	<ul style="list-style-type: none"> <li>- We catch more errors and fraud than we miss</li> <li><i>... There will always be an element of failure</i></li> <li><i>... A lot of the auditors' work does not get seen</i></li> </ul>
<b>Identification with the victim:</b> "our reputation is at stake"	<ul style="list-style-type: none"> <li>- Corporate failures hurt us</li> <li><i>...if there is a collapse of the business, the partners lose their investment, their business and their livelihood</i></li> <li>- Our incentives are aligned with the market, public or client</li> <li><i>...our audit partners are rewarded only on audit quality</i></li> </ul>

These axial codes shown in Table 3 have been used to interpret and organize our findings in subsection 4.1 relating to the auditors' defence against accusations. Then, in subsection 4.2 we present our interpretation of the executives' 'rhetorical strategies of resistance' to the imminent threat of major reform i.e., how they use rhetoric to object to, avoid or strategically position themselves in relation to, specific reform proposals. In accordance with Oliver's (1991) antecedents of strategic responses which require consideration of the cause, constituents, content, control, and context of the institutional pressures<sup>19</sup>, these aspects within the institutional context highly influence each respective executives' *willingness* and *ability* to resist. We expect each executive, as representative of their 'Big Four' or 'non-Big Four' (mid-tier) firm, to position views on specific reforms according to a common sense understanding of the respective firms' *vested interests* and perceptions of *legitimacy* standing. The two more significant audit reform proposals which emerged from the discourse inform the structure of subsection 4.2 and are used to showcase and interpret how each firm positioned itself. These reforms are (1) a system of joint audits, and (2) the split of audit and advisory practices. Here in subsection 3.3, we provide a brief explanation of the distinctions inherent in the above two reform proposals.

### 3.3. Joint vs shared audits / Structural vs operational splits

In the discourse, distinctions are made between 'joint' and 'shared' audits, as well as between 'structural' and 'operational' splits. In a 'joint audit' two firms are required to sign off on the audit. As such, responsibility for the audit opinion, and audit liability, would rest with both auditors. However, a 'shared audit' requires one primary audit firm (the statutory auditor) to take overall control, responsibility and liability for the audit. Another audit firm then supports the statutory auditor on certain aspects of the audit. Concerning the split of the advisory and non-advisory sides of the audit firm, the 'structural split' is the more radical of the two options. A structural split would have the audit firms undertake a *full* legal and economic separation of the audit and non-audit businesses, creating two separate and independent legal entities. Under this model an audit firm in the UK would be prohibited from undertaking non-audit services other than those necessary to conduct the audit work itself. An 'operational split' rule would not require full legal separation and would thus not result in two separated and independent businesses. However, it would require the separation of governance/leadership structures, the separation of accounting and remuneration policies, and separate profit-sharing arrangements between audit and non-audit sides of the business.

## 4. Discursive analysis

The tone and content of the questioning by the Committee's members demonstrate considerable frustration with the status quo and a desire for urgent and substantial reform. The rhetoric was often direct and critical, making clear the intention to achieve genuine accountability and change in the wake of the corporate scandals. With the failures of BHS, Carillion and Patisserie Valerie fresh in their minds, the Committee members wanted to know why audits were so '*ineffective*' and '*unsatisfactory*'. In their estimation the profession's inability to whistle-blow on corporate fraud and financial negligence was surely due to a compromise of integrity, independence or expertise. The legitimacy of the audit process (and the audit firms concerned) was under threat.

*...the audit company is not committing a crime... but its fingerprints would be all over the crime scene... If an audit company is not picking up on this type of behaviour, what is the point of audit in the first place - if this kind of behaviour is not exposed? (Peter Kyle)*

*Do you offer your clients anything above and beyond this very unsatisfactory audit model? (Chair: Rachel Reeves)*

*What do you think the ordinary member of the public, who has their pension fund money invested in a company, would expect? (Antoinette Sandbach)*

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<sup>19</sup> Oliver (1991, p. 160) refer to these as 'institutional antecedents' which predict an actor's strategic response to pressures.

*When is it going to change, how and how quickly?... When we say “regulation” we have to mean it: that people are held to account and held to a standard that the public would expect. (Vernon Coaker)*

The discourse is akin to a courtroom environment with audit executives ‘in the dock’, defending themselves before a ‘prosecution, judge and jury’ in criminal proceedings. Consequently, we give emphasis to the ‘neutralization techniques’ of deviance theory (Minor, 1981; Sykes & Matza, 1957) in our analysis of the legitimation rhetoric as the auditors mount their ‘defence’ against the MPs.

#### *4.1. Rhetorical strategies of legitimation*

According to Oliver (1991, p. 152), where legitimacy is lacking and the ability to resist change is diminished, actors “reproduce actions and practices of the institutional environment that have become historically repeated, customary, conventional, or taken-for-granted”. In this inquiry the “loci of external power (those who shape and enforce institutional rules and belief...)” (Oliver, 1991, p. 148) was clearly against the profession. Factors surrounding the cause, constituents, content, control, and context of the pressure (Oliver, 1991, p. 159) meant that the audit executives needed to act cautiously with more ‘passive’ resistance tactics.

##### *4.1.1. “We are beyond reproach” – denial of responsibility and appeals to higher loyalties*

The executives deny, albeit tactfully, that the failures are their fault. They argue that failures are not an indication of a systemic compromise of integrity or expertise. They may be corporate failures, but they are not audit failures! This denial of ultimate responsibility is perhaps best illustrated by the engagement between the Chair and the KPMG executive over the highly controversial, recent and ongoing case of the Carillion collapse. The KPMG executive did not admit to an audit failure at Carillion. Each time the Committee raised specifics concerning the Carillion case, the KPMG executive attempted to deflect the questions:

*I cannot specifically talk about the live situation in Carillion... (KPMG01)*

*I honestly cannot talk about the specifics of Carillion right now... (KPMG01)*

This was not satisfactory to the Chair of the Committee, who pushed the matter further, we believe, to prompt the KPMG executive to admit to compromised audit quality: “*what lessons did you learn and why did you suspend those four people?*” (Chair). The reply of the KPMG executive demonstrates the framing of auditors’ responses to allegations of misconduct. The auditor denies culpability and its executives represent themselves as responding proactively to the situation as ‘solution bearer’ rather than ‘problem causer’. In the following dialogue we provide the emphasis (in bold) to illustrate how the audit executive frames their firm as the proactive problem solver:

*KPMG01: What happened with the audit partner suspension is that we had been conducting **a thorough forensic review** of our 2016 audit, which is of course under current investigation. During that review, **we included** the way our audit team dealt with the FRC’s audit quality review, which was conducted routinely during 2017. **Our review identified** a number of irregularities on **a small number of documents** provided to the AQR [Audit Quality Review] **to supplement information** on the audit file. **We immediately**, as soon as we identified this, notified the FRC of this matter and we suspended the four individuals, including the lead partner Peter Meehan. We are now conducting **an independent review using outside legal counsel** and we are **sharing our findings with the FRC**. We are also **fully co-operating with the FRC on this matter**. Again, it is a live investigation; **it is difficult for me to make any further comment**. However, it is important to note, from **the work that we have performed so far** and the evidence that we have, **we have no indication that these actions in any way have impacted our audit conclusions on Carillion**.*

*Chair: You still believe that you conducted a proper audit of Carillion?*

*KPMG01: I stand by those comments I made at that time.*

Expertise and integrity, claimed as pursued with intent and sacrifice, are the two attributes with which professions establish their legitimacy (Picard et al., 2014; Suddaby et al., 2017). It was clear from the outset of



proceedings that audit executives are well-versed in raising this ‘professional banner’ in their rhetoric. As expected, there were repeated claims of a primary and unwavering commitment to audit quality and the public interest.

*Fundamentally, you are focused on audit quality and protecting investors and others. (EY01)*

*...our culture is built on acting with integrity as a core value that underpins our firm culture and is key to our licence to do business. (PwC02)*

The reference by PwC to their ‘licence to do business’ illustrates that the executives understood that they were defending their performance under the ‘social contract’ (Carnegie & Napier, 2010). The Committee was quick to interrogate these claims. For instance, how did auditors handle various scenarios where the pursuit of quality required more work than expected? Would profitability be sacrificed, to the extent of allowing an engagement to make a loss if this was required to prevent or detect irregularities?

Mark Pawsey: *In the real world, if you know you are being asked to do a whole load of extra work at an extra cost, no organisation wants to make a loss on something, so is there a danger that [a] deep dive will not happen?*

GT01: *In our experience, generally not, because we assess quality so strongly and it impacts the individual so strongly.*

A similar question was asked of EY in Session 2:

Mark Pawsey: *Why would you do that [extra and unplanned work when deemed necessary] if it takes extra time and you are not going to recover those costs?*

EY01: *Fundamentally, you are focused on audit quality and protecting investors and others.*

Mark Pawsey: *You are happy that outweighs the return to the firm in the price that it has negotiated for the work?*

EY01: *Oh, yes, significantly.*

The executives wanted the Committee to believe that additional staff resources would be committed, without consideration of profitability, if the situation required it to maintain audit quality and discharge professional duties. We interpret this as combination of legitimation techniques. First there is evidence of what Van Leeuwen (2007) calls a theoretical moral rationalization. The executives are representing auditors as inherently committed to audit quality, to professional values and to acting with integrity. This reasoning is “grounded, not in whether the action is morally justified or not, nor in whether it is purposeful or effective, but in whether it is founded on some kind of truth, on ‘the way things are’” (p. 103). As a neutralization technique, this deflects the accusations through an appeal to integrity and professionalism as a higher loyalty (Sykes & Matza, 1957). In doing so we also interpret the executives as portraying the engagement partner as beyond reproach, at least, as far as their *intentions* are concerned. There is an appeal to the authority of an individual who can be trusted (the partner). Once established, an authority “need not invoke any justification... other than a mere ‘because I say so’” (Van Leeuwen, 2007, p. 94). The implication is that audit failures, if they are such, are not the result of a systemic lack of integrity or a profit-before-quality mindset, but due to other undefined factors.

Professionalism is advocated as the dominant logic rather than commercialism. The profit incentive was not denied, but their integrity safeguarded against misconduct. This commitment was presented by the auditors as an unquestionable ‘higher loyalty’:

Mark Pawsey: *Mr Ellis, you told us about the huge amount of work that is necessary in preparing a tender and we have heard that also from challenger firms. There is an enormous amount of work that needs to be done, which is not recoverable if you are successful, but do you sometimes get it wrong? Do you sometimes bid the wrong price, because you have not properly assessed the amount of work that is involved in these businesses, which you have told us are much more complicated now than they were 20 years ago?*

PwC01: *That can happen, but the audit partner will still want to do the work properly and, if that means we have a loss on [the engagement, then] we do...*

KPMG01: *From my experience, if we have challenges with clients - we have to do more work...*  
Mark Pawsey: *That is interesting.*

Rationalisations are often based on an appeal to morality, even if indirectly or abstractly (van Leeuwen, 2007). This establishment of a moral basis to a rational argument acts to protect the auditors' position from rebuttals. The auditors 'are professionals' and, as such, 'act with integrity' above their economic self-interest, "*doing that extra work, even if there is not capacity*" (GT01).

The Committee pressed the question: why do corporate failures, many of which involve management gross negligence or fraud, still occur if auditors are prepared to do all the "extra work"? The Committee believed corporate failures were, at least to some degree, the result of genuine audit failure. This is consistent with accusations from US regulators (PCAOB, 2011, p. 2) who believed corporate financial scandals were, at least, partially because of compromised "independence, objectivity and professional skepticism" associated with rendering additional services to audit clients. Years prior the US Government Accountability Office (GAO, 2003, p. 1, 13), ascribed the "major failures in corporate financial reporting" which resulted in the Sarbanes-Oxley Act of 2002 (i.e., the Enron collapse), to a "breakdown in auditor independence or audit quality". US auditors attempted to deflect the accusation by arguing that "no empirical evidence conclusively links audit failures to non-audit services" (PCAOB, 2011, p. 6).

In the UK inquiry no such arguments were made by the executives. We believe this is because the hostile atmosphere was such that a more nuanced strategy was required. The executives turn the accusations into a question of misunderstanding by the accusers, providing two explanations for why the failures are not the profession's fault. This defence is what Nelson and Lambert (2001, p. 83) refer to as 'evidentiary solipsism', something which we find in various forms in the rhetoric. The first explanation was to highlight 'the expectations gap' problem and the second was to blame the growing complexity of audits. In both rationalisations it was the market and the public which did not understand the nature of an audit, its inherent limitations and resulting risks. By implication, only audit professionals are able to determine "the 'true' meaning-structure of events" (Nelson & Lambert, 2001, p. 102) with the implication that the Committee is naively jumping to conclusions.

#### 4.1.2. "The expectations gap"

An interesting dialogue occurred between Peter Kyle and the Grant Thornton executive, specifically referring to the Patisserie Valerie audit (emphasis added):

Peter Kyle: *Could you talk us through, specifically, what measures you take as an auditor when you are undertaking an audit to expose criminal activity going on within companies, and to make sure fraud, should it be happening within a company, is discovered?*

GT01: *As you say, I cannot talk about Patisserie Valerie [as] there is a live investigation, which we will co-operate with. There is a clear expectation gap. An audit fundamentally gives a reasonable opinion on historic information and **does not look for fraud**. The market expects that it is doing all those things, so we have that expectation gap that needs to be fixed.... **We are not looking for fraud. We are not looking at the future. We are not giving a statement that the accounts are correct.** We are saying they are reasonable. We are looking in the past and **we are not set up to look for fraud.** That is the fundamental expectation gap in the market.*

*{Authors' comment: We emphasize the comments about fraud by Grant Thornton. In subsequent discussion it was clear that other executives wanted to distance themselves from these comments by Grant Thornton. }*

The responsibilities of the auditor to prevent and detect fraud have been long debated. The current professional standards do obligate the auditor to consider fraud as part of an audit but stop short of imposing an explicit duty on auditors to be fraud watchdogs<sup>20</sup>. However, the Committee was clearly dissatisfied with Grant Thornton's response. The Committee expected auditors to look for illegalities, irregularities and fraud. The executives from other non-Big Four firms stepped in at this point in the dialogue (this was the first session,

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<sup>20</sup> Refer specifically to the international auditing standard ISA 240 (Revised).

so no Big Four executives were present). Although not explicitly agreeing with the Grant Thornton executive that an auditor is not responsible to detect fraud, there was an attempt to argue that the auditor may not detect “sophisticated fraud” and that an audit was not designed to detect “small frauds” (BD01).

Responding to a question of how often the firms qualify an audit, the Grant Thornton executive argued that the public “do not see the many, many conversations where we have suggested an adjustment and the adjustment is made, and therefore there is no need for a qualification. A lot of the auditors’ work does not get seen”. He then argued that they were not afraid to disagree with management and qualify audit reports noting that GT nationally had issued 60 qualified opinions in the past year. The following dialogue ensued:

Chair: *Of how many?*

GT01: *7,000*

Chair: *You said you qualified 60 out of 7,000, so just under 1% you qualify*

Mark Pawsey: *You are implying, if that is 1% you have qualified, that 99% have essentially been passed, but one assumes there was quite a spread of quality within that 99%.*

The audit executives attempt to legitimize their practices by claiming that they do qualify audits. The “prosecutor” is not convinced by Grant Thornton’s explanation and wants to establish that the number of qualifications is unreasonably low, but the Committee has no way to determine the number of falsely positive conclusions reached by the auditor (a Type II error). This gives the advantage to the auditor who relies on the fact that audits can and have been qualified as a type of “bank of credit”. Similar to the neutralization technique of entitlement described by Minor (1981), auditors believe they ‘catch’ more errors and misconduct at their clients than they ‘miss’. As such, the Patisserie Valerie audit can be validly characterized as an exception with the inference that the Committee is being unreasonably harsh.

If audit quality cannot be inferred from the number of clean or modified audit opinions, the importance of independent regulatory reviews of audit work to determine if engagements have, in fact, been executed to the correct standards is established. To this end, the Committee raised the matter of poor inspection findings with the Big Four’s executives:

Chair: *Of the Big Four FTSE 350 audits, 23% required improvement and KPMG scored the worst on that; the FRC found that half of the firm’s FTSE 350 audits required improvement. Do you recognize those figures, Bill Michael?*

KPMG01: *... I accept those results. Those results are unacceptable, and we are working hard to resolve them.*

PwC argued that “*There will always be an element of failure where sometimes we do not manage, through human error or mistake, to spot a judgment error by management in preparing the accounts*” (PwC01). This particular legitimation again illustrates a theoretical rationalisation wrapped in a moralization (van Leeuwen, 2007). The auditors are ‘just human and humans err’.

There was constant appeal to the idea that auditors are also limited by the auditing and accounting standards, which the market neither appreciates nor understands.

*We complete an audit. This is not a full-on legal review of a company’s operations. We are auditors.* (EY01)

*In the real world, for a sophisticated collusion, it might be difficult. It might not be spotted by ordinary audit work, which is in accordance with our standard regulations.* (GT01)

A specific accusation by the Committee directed at the KPMG executive illustrates this form of legitimation. Antoinette Sandbach claimed that KPMG “*was responsible for Carillion paying a £54 million dividend one month before it announced an £845 million hit*”<sup>21</sup>. The dispute here was a technical one - the precise understanding of what constituted ‘realized profits’ and the apparent discrepancy between accounting standards and UK law

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<sup>21</sup> The payment of dividends while financially insolvent was a key irregularity identified in 2018 following the collapse of Carillion (audited by KPMG).

on the matter. The KPMG executive was defending the firm's behaviour using the ambiguity and disputed interpretations of the law for declaring dividends.

*We audit in accordance with accounting standards... All of us are signing off on accounts that we believe are in accordance with the law. (KPMG01)*

Overall, we interpret these 'expectations gap' legitimations as examples of Nelson and Lambert's evidentiary solipsism. Auditors look for rationales which show how the public misunderstand auditing and its inherent limitations. They then correct the misunderstanding by providing "representation of 'the way things are'" (Van Leeuwen, 2007, p. 103). Implying that the Committee (the immediate accusers) are ignorant of the limitations inherent in auditing, they make the defence that the regulations in which they operate are to blame.

*The regulator asks, "Have you fulfilled the regulations?" There is a separate question as to whether the regulations are fit for purpose and delivering what the market wants. (GT01)*

The KPMG executive, in an engagement with the Committee:

*"What is happening here; the collection of all these changes, are absolutely in the right direction... It is forums like this that are hugely important because, while they are uncomfortable, they are going to take us in a better direction."*

To which Vernon Coaker replied,

*"What you said about greater regulation is right... when we say "regulation" we have to mean it: that people are held to account and held to a standard that the public would expect. Is that agreed?"*

The KPMG executive response:

*"I could not agree more."*

In support of the idea that the regulations are not 'fit for purpose' when audit failures occur, the harshest criticisms do not seem to come from the investors or those 'within' the capital markets, who have a more informed understanding of audit as a technical discipline. Criticism is most acute from stakeholders who are less informed and who do not have a direct financial interest in the respective organizations (Ruhnke & Schmidt, 2014; The Economist, 2018a, 2018b; The New York Times, 2014). This is especially relevant when it comes to the ongoing debate about the auditors' duty to detect fraud. Here the executives were not hesitant to accept an expanded responsibility. Broadening an audit to include a stronger emphasis on fraud detection is theoretically and practically possible (van Brenk et al., 2022). What was challenged as being infeasible, and where we view the resistance in the discourse, is the provision of an extended mandate, resulting in a more complex engagement, for the *same cost to the client* and to be completed in the *same amount of time* as a conventional audit.

By appealing to the limitations of audit and 'the way things are', auditors are able to abdicate or to refute responsibilities which would be imposed on them by non-experts. We interpret this argument as a subtle form of 'denying the victim'. The Committee was quick to make emotive arguments based on job and pension losses caused by corporate collapses. The employees and their families are, in essence, the 'victims' of audit failures. The executives then appeal to the limitations of an audit, to show that the tools at their disposal and the regulatory framework in which they operate, do not justify the Committee's expectations of them. This refocuses the conversation on the identity of the "correct victim". The Committee, as democratic representatives of the public, understandably make emotional claims of personal losses by vulnerable groups. The auditor attempts to reframe the debate and divert this accusation by appealing to the idea that they have a limited set of resources to provide a limited amount of audit work. Auditors cannot reasonably be expected to guarantee that no fraud or misconduct has occurred in a client's finances and those who legislatively appoint them (the shareholders and the board of the company) should understand the risks that are being taken in committing capital to risky ventures. It can be argued that the auditors 'are sticking to their script' about their responsibility to investors while the Committee is seeking a much broader duty of care.

The discourse shows that the executives believe their firms are delivering what can be reasonably expected in the context of cost, time constraints and the regulatory framework. The board of the company and its

shareholders have engaged auditors to express an opinion on the financial statements for the benefit of *informed* investors. If investors do not understand the inherent risks and the limitations of financial accounting and audit, they should not have entered the market in the first place. We consider this line of thought similar to, albeit not as explicit, as that advanced by banking executives following the GFC:

*These were knowingly being originated by professionals and sold on to professional investors and rated by their agents. [There was a] willing buyer and willing seller. This was a business which was conducted and there was no secret about it and there was no subterfuge involved. (cited in Siebert et al. (2020, p. 11))*

#### 4.1.3. “The audit is complex” and “we are the heroes”

We found further evidence of ‘evidentiary solipsism’ to deny responsibility, this time wrapped in a kind of ‘heroic’ representation of auditors. According to the executives, the growing complexity of business makes the task of the auditor more challenging. The word ‘complex’ was used over 20 times by the executives in the oral sessions.

*Quality is difficult to observe in a diverse, dynamic and complex business environment where one size does not fit all. (PwC02)*

Framing audit in this manner (i.e., as inherently subjective and complex) showcases the professionalism and virtues of the auditor. It is a framing technique of ‘moral-based abstraction’ whereby the rationalisation given (the complexity of auditing is increasing) distils within it a moral value or virtue to further persuade the audience (Van Leeuwen, 2007, p. 99). Auditors are presented as willingly and heroically discharging their duties in the face of ever riskier and complex clients. Even the perpetration of fraud is becoming more “sophisticated”, the audit executives claim. We interpret this as a form of identifying with the victim. The auditors, like the victims of corporate collapses, bear the consequences of growing corporate complexity and the ever-changing schemes of management to conceal misconduct.

*...many of the multinationals that we audit, they are a lot more complex, and the world is a lot more complex. (EY01)*

*I do not want to hide behind the word “complexity”, but we have become a far more interdependent, larger practice to deliver audits, to service audits, specialists. It may be uncomfortable, but the reality is that it has changed. (KPMG01)*

We believe that the rhetoric was partly intended to steer the Committee away from advocating for reform which would have them split audit and advisory businesses (refer to subsection 4.2). Another intention, in line with their claim of an ‘expectations gap’, was to convince the Committee that auditors were doing their best under difficult circumstances and some mistakes were simply unavoidable. After all, auditors are only “human” (PwC01). Making use of expressive language and idiomatic imagery aids the accused in evoking an emotional response from the accuser and either portraying themselves as an additional victim in the debacle or re-framing the narrative to suit their needs. The auditor diligently approached the audit by “*getting under the skin of the business*” (BDO01) with a need for more “*tools in the toolbox*” (GT01). They did not want to be seen as just “*standing on the side lines*” (GT01) and would “*spend hundreds of hours on every audit*” (PwC01) and make losses, if need be, to achieve high audit quality. This rhetoric, an example of what Nelson and Lambert (2001, p. 103) call “emotional obfuscation”, uses “abstractions which foreground desired and legitimate qualities of cooperation, and of engagement and commitment” (Van Leeuwen, 2007, p. 99). The auditors’ rhetoric emphasises the almost insurmountable complexity at their clients, which auditors ‘battle valiantly’ but with little thanks from key constituents, including the regulator and legislature.

In response to the Chair asking directly: “*But you still think you provided a proper audit at Carillion?*”, the KPMG executive responded,

*“I put myself forward as chairman in our firm because I recognize the challenges that we face... we are working hard to resolve them as a firm... We went through a lot of soul searching as an organisation over the last 15 months, because we have a number of challenges that we acknowledge and recognize, and we are taking action to resolve them”.*

The KPMG executive portrays personal accountability, putting himself forward to rectify the situation. However, the admittance was not of negligent behaviour *per se*, but a means of communicating greater resolve to respond to the challenges faced during engagements. The firm was undergoing serious ‘soul searching’. The rhetoric also has the effect of portraying penitence to subvert further sanction, because ‘we are already taking our own action’ and ‘I have already punished myself’ for the transgression.

In light of growing complexity, the executives described how their

*“business has responded to this reality by investing in our people and their professional development; by investing in technology, which has changed not only what we audit but how we do it; and through the delivery capacity of our international network. Our ability to deliver thousands of high-quality audits fundamentally depends on these factors.”* (PwC02)

The executives could acknowledge that there was a major problem but iterate that failures are not their fault. On the contrary, the audit firms are part of the solution in keeping with earlier findings that commercialism and professionalism are “*closely intertwined*” (Dermarkar & Hazgui, 2022, p. 17) and not in opposition, as implied by other researchers (e.g., Carnegie & Napier, 2010; Cooper & Robson, 2006; Malsch & Gendron, 2013; Samuel, Covaleski, & Dirsmith, 2009). In response to the growing complexity inherent in larger, more diverse and technology dependent multinational companies, the need to maintain audit quality requires a major investment by audit firms. This investment is required out of the profits of the business (commercialism). Audit quality “cannot be attained without simultaneous deference to mercantile imperatives” (Dermarkar & Hazgui, 2022, p. 17). A feature of the rhetoric by executives was to, where possible, portray their firms’ mercantile imperative as a positive driver of audit quality.

#### 4.1.4. “*Our reputation is at stake*”

The executives were at pains to emphasise how audit failures were detrimental to their business, and indeed their reputation. The timing of the inquiry was only shortly after PwC UK was issued a record fine by the UK regulator (£6.5m) in June 2018 following their finding that BHS’s 2014 accounts were ‘incomplete, inaccurate and misleading’. The PwC engagement partner responsible was also fined a record £325,000 after admitting misconduct and agreeing not to perform any audit work for 15 years (Reuters, 2018).

*If there is a collapse of the business, the partners lose their investment, their business and their livelihood... Audit opinions are signed personally and therefore the reputation of the person signing the audit opinion is critical.* (PwC01)

*The most important is the reputation of our firm. That is unequivocal.* (KPMG01)

*Our audit partners are rewarded only on audit quality.* (Deloitte01)

The appeal to their commercial incentives (such as reputation, career progress or remuneration) reiterates how auditors “intertwine” (Dermarkar & Hazgui, 2022, p. 1) their commercial and professional incentives to such a degree that profit-seeking is argued to support, not hinder, audit quality. A noted potential problem with the ‘identification with the victim’ technique is that it can highlight the social division between the accused and the victim (Burke, 1969; Dalton & Kesner, 1988). The BHS and Carillion cases, for example, fresh in the mind of Committee members, resulted in significant losses to the employee pension fund scheme and thousands of job losses. The Committee, being elected politicians do not easily accept such legitimisation from auditors, as was concluded in the Committee’s final report:

*People are tired of hearing excuses for failure and are intolerant of blame being shifted from one set of well-paid people to another.* (House of Commons, 2019)

The auditors extol their commitment to expertise and integrity but are perceived as retaining their privileged positions throughout high-profile scandals<sup>22</sup>. Appealing to ‘reputation’ and ‘reward’ for quality work has the veneer of an argument grounded on integrity and aligned incentives but runs the risk of exposing the commercial priorities of a privileged class. Understanding that their commercial incentives will always be a basis for accusations of compromised and conflicted interests, auditors are careful in their rhetoric to portray the profit motive positively. They represent profit as necessary to drive audit quality by incentivising reputation management, linking it to performance metrics and making the case that profit allows reinvestment in people and technology to make the profession sustainable, career attractive and responsive to the ever-changing business world.

#### 4.2. Rhetorical strategies of resistance: “Change yes, but only small change”

We now turn to consider the strategic resistance the executives applied to the specific reforms being proposed by the Committee. Our assumption in the analysis, which we argue is confirmed by the data, is that the executives are not just defending their legitimacy but are also attempting to avoid institutional reforms which would severely damage their businesses. Both sessions ended with what we believe are only partial (and carefully worded) commitments from the executives to support the regulators and government in delivering change.

*We disagree with some of it, but there are a lot of things that we absolutely support. (PwC01)*

*There needs to be a lot of change in this market, for sure... and it is complicated... there is no silver bullet here. (EY01)*

*The biggest risk is no change. [Policy reform should not be] kicked further down the road. I think the public want to have confidence and need to see change in the next couple of years. (BDO01)*

Likewise, in the written submissions:

*We are at a watershed moment in the UK, both for business and audit, and EY would welcome a comprehensive set of changes to improve trust between society and business. (EY02)*

Despite the above sentiments, the Big Four did not support all of the Committee’s policy proposals. KPMG said they were “*the right direction of travel*”. Others simply stated they supported “*many of them*” (Deloitte01). This was not lost on the Committee which concluded the session with the Big Four executives with a stern warning: “*the consequences of not changing*” (Chair) would be more serious to the profession than any of the suggested reforms.

In accordance with Oliver’s (1991) antecedents of strategic responses, we expect each audit firm to position itself based on *vested interests* and perceived legitimacy standing. This, in turn, should impact the executives’ *willingness* and *ability* to argue against specific proposals. Unlike other regulatory contexts where auditors were deemed highly influential in the regulatory debate (e.g., Canning & O’Dwyer, 2013; Jonnergård, 2012; Malsch & Gendron, 2011), the legitimacy-deficient situation facing UK auditors, together with the resolve of the regulatory authority to implement change, afforded little alternative other than to seek compromise. According to Oliver (1991, p. 153), when compromise tactics are required, an organisation must seek to “*balance, pacify, or bargain with external constituents*”. This approach became evident when considering how the auditors responded to proposals for joint audits and the separation of assurance and non-assurance parts of their businesses.

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<sup>22</sup> This is one of the ways in which the public interpret high-profile corporate scandals which cause such losses yet seem to leave the auditors relatively unscathed (e.g., The Economist, 2018a; The New York Times, 2014, 2017).

#### 4.2.1. *Joint/shared audits vs. market share caps*

A joint audit is intended to improve the quality of the audit by reducing the likelihood of independence compromise and improving the expertise available in the combined audit team. The Committee was specifically considering a 50-50 (equal effort and responsibility) joint audit split “involving a Big Four and a challenger firm [i.e., non-Big Four firm], because [the Competition and Markets Authority (CMA)] believed that they were more likely to reduce the barriers faced by the challenger firms to audit large, complex companies” (House of Commons, 2019, p. 58).

Grant Thornton, Mazars and BDO were supportive of such a rule for listed companies. Joint audits would allow the smaller firms to gain market share. Grant Thornton explained how the cost of bidding for the larger listed companies, without a realistic chance of success<sup>23</sup>, was excessive and the firm had decided “*not to proactively bid until there is a change in the buy-side environment*”.

The Big Four all stated that they “*absolutely support more choice in the marketplace*” (PwC01), but *not* through a policy of joint audit, instead advocating for ‘market share caps’.

*We think joint audits would increase costs for the company in terms of audit fees, because you would have duplication, and in terms of management time. But we do agree with market share caps.* (PwC01)

The specific cap referred to would create a ceiling of 80% for the Big Four in the audit market for the 350 largest exchange-listed companies. Smaller audit firms would be required to service the remaining part of the FTSE350. The Big Four may prefer this approach to joint audits because it is less disruptive and costly to their business i.e., less audit fee revenue would be lost to the mid-tier audit firms in comparison to a joint audits policy. Due to the expressed reticence of the mid-tier firms to bid for the audits of larger FTSE100 companies and their admitted inability to service these potential clients, the Big Four stood to retain the most lucrative audits under a market share cap policy. In fairness, the Big Four executives did provide reasons for preferring market share caps. They argued that a joint audit was less efficient and a greater risk to audit quality. Also, if a 50-50 joint audit split was required, some of the larger FTSE100 companies would still be outside the scope of most, if not all, mid-tier firms<sup>24</sup>. Our purpose here is primarily to note that the Big Four disagreed with the “challenger firms” and unanimously advocated for a position which aligned with their economic incentive.

*A critical question is whether the smaller audit firms have the capacity and willingness to take on the volume of complex, high risk audits that is implied by the remedy.* (KPMG02)

#### 4.2.2. *Ending the MDP model: Rationalizing in moral terms*

Splitting the audit and advisory divisions of the audit firms, effectively ending the highly cherished (Suddaby & Greenwood, 2005) MDP business model, was deeply unpopular with three of the Big Four executives. PwC, Deloitte and EY were opposed to this regulation (not KPMG), defending their “*multidisciplinary model [as] the right model for delivering increased audit quality*” (Deloitte01). They argued that the corporate environment had become “*hugely more complex than in the past*” (EY01) and such a split would impair audit quality and cause the firms to “*carry more risk*” and become less “*resilient*” (Deloitte01) to failure. Expertise from staff outside of audit (but still within their MDP business) accounted for as much as “*15% to 20%*” of the hours spent on an average audit and provided “*the critical knowledge that you need to know to be able to complete the audit*” (PwC01).

This appeal to the technical expertise and ‘resilience’ provided by the MDP model demonstrates legitimization by instrumental rationalization (van Leeuwen, 2007). An audit-only business, it was argued, would produce lower audit quality as it would not be supported by the diversity of skill and expertise contained within the non-audit side of the business. Similar auditor rhetoric is shown by Suddaby and Greenwood (2005) in support of MDPs, as well as in the more recent EU audit reform debates (Horton et al., 2018). Even the rhetorical use of the term ‘multidisciplinary’ conveys a moral idea through abstraction: more expertise, deeper

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<sup>23</sup> Grant Thornton claimed a “bias” in the market in favour of the Big Four, such that the non-Big Four were disinclined to “pitch” for appointment.

<sup>24</sup> This reality was admitted by the non-Big Four executives present.



insight and more rigor. The use of the terms ‘multidisciplinary’ and ‘resilience’ illustrate how “*language is without doubt the most important vehicle...*” (van Leeuwen, 2007) and “*plays the central role in legitimation*” (p. 107). “*The fundamental legitimating ‘explanations’ are, so to speak, built into the vocabulary*” (Berger & Luckmann, 1966, p. 112).

*The multidisciplinary partnership is the best way to deliver the highest quality audits. This structure provides access to specialists to support audits, as well as financial resilience, investment, independence from even the world’s largest companies and alignment of purpose and financial interest around audit quality throughout the partnership. We strongly believe that firms with a varied, multi-disciplinary model of services - beyond audit - are essential to audit quality. (Deloitte02)*

PwC went further in their appeal to moral ideals, arguing that an operational split would adversely affect the profession’s ability to attract and retain talent to the detriment of audit quality.

*Talent is attracted to choice. My global head of assurance started off as a consultant. My European head of consulting started off as an auditor. People like choice. If the ultimate aim is to have the best possible people - this is a human business; it is about human judgment - we want to attract school leavers, apprentices and university graduates, who want choice. I do not think an audit only firm will do that. (PwC01)*<sup>25</sup>

*...[a split] will undermine rather than enhance audit quality in terms of the ability to draw on specialist expertise in the audit, to invest in audit technology and to maintain audit as an attractive career choice for thousands of graduates. (PwC02)*

KPMG possessed less legitimacy ‘capital’ because of the recent Carillion failure (Schinkel & Noordegraaf, 2011; Spence et al., 2017) and this required more of an acquiescence or a compromise tactic to rebuild legitimacy (Oliver, 1991).

*I can understand why you might be shifting shape on this requirement, because of course KPMG was responsible for Carillion... (Antoinette Sandbach, referring to the prospect of an operational split)*

Unlike the other three, KPMG supported an operational split, “*but not a full, hard, electrified fence*”, rather “*some form of separation is the right direction of travel and we have started doing that*” (KPMG01). KPMG does not want a full economic and legal separation, but rather a softer, more symbolic separation – and they were quick to show that they were first movers in this direction.

A primary reason for the resistance here is surely because the revenues generated by the non-audit side of the Big Four’s business dwarf those from audit services. The Committee made enquiries concerning the relative revenues generated by the two business divisions.

*If I look at our firm, in the UK, we are a firm with revenues of about £3.7 billion, £500 million of which is audit. To me, it is very clear; if you have a separate audit business with £500 million of revenue, it is less resilient than a firm, which stands behind the audit quality and everything we do, of £3.7 billion. (Deloitte01)*

To the above statement by the Deloitte executive, Stephen Kerr responded satirically: “*£500 million makes you less resilient? That is a fascinating thought for most of the businesses in my constituency!*” The Committee was evidently sceptical of the core argument being given by PwC, Deloitte and EY. This prompted the Committee to request the Big Four to state their overall revenue split between audit and advisory services. The responses indicated that audit accounts for a minority of the revenue - approximately 20-30%. The Committee, noting the important distinction between revenue and profitability, pressed the Big Four to disclose the different profit margins between audit and advisory divisions. The executives were reluctant to provide such figures. PwC finally admitted (after some persistence from the Committee<sup>26</sup>) that audit returned approximately 18% and advisory

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<sup>25</sup> This is one of the few examples in the discourse of mythopoesis (Van Leeuwen, 2007) i.e., using an anecdotal story to convey a positive or negative outcome.

<sup>26</sup> The Chair (Rachel Reeves) congratulated the BEIS Committee member (Mark Pawsey) who persevered and succeeded in having one executive finally commit to, and publicly state, the difference in profit margins.

26% margins. This established that the advisory side of the firms was not only larger in terms of revenue but also more lucrative than the audit business.

Yet, the Big Four's arguments against splitting their firms were framed in terms of 'resilience', 'talent retention' and 'audit quality', rather than profitability. In both regulatory matters we here discuss, we observe the Big Four using rationalization legitimization, often with moral abstractions, focused on audit quality logic but aligning with their economic agenda. This appears to be, as is argued by Lee (1995, p. 64) and Cooper and Robson (2006), auditors positioning "an economic text with a public interest cover".

#### 4.3. Reflecting on subsequent events

It seems fitting to reflect on what meaningful change, if any, has resulted from this 'future of audit' enquiry and deliberations with the profession. Three months after this inquiry the BEIS Committee reiterated these proposals in their April 2019 report to the House of Commons along with their rationale for proposing a structural split (not an operational split) and mandatory joint audits (not shared audits):

*"We found the objections against full legal separation to be very weak... We also found well-functioning examples of legal separation and audit-only firms.... legal separation offers benefits on multiple fronts: quality, independence, culture, transparency, trust and to some extent, choice.... These benefits of separation are large, and in our judgement, worth incurring significant costs... We encourage the CMA to **aim for full legal separation** of audit and non-audit services. The CMA should look to the long term, and not let one-off, short-term implementation costs weigh too much in its calculations"*

(Page 39 in the Future of Audit Nineteenth Report of Session 2017–19)<sup>27</sup>

*"We accept that joint audits might cost significantly more. However, we believe that the extra cost can be justified if the use of joint audits, especially for FTSE 100 companies, allows more choice and competition, improves standards and helps deliver greater resilience."*

(Page 61 in the Future of Audit Nineteenth Report of Session 2017–19)<sup>28</sup>

The above recommendations by the BEIS Committee were directed specifically at the Competition and Markets Authority (CMA) to consider. The CMA, as the competition regulator in UK, is a 'non-ministerial government department' which reports to the Department for Business, Energy and Industrial Strategy (BEIS). The board of the CMA is appointed by the Secretary of State for Business, Energy and Industrial Strategy, who is a member of Cabinet in the UK government. In this case the CMA would make its recommendations to the Department concerning a structural/operational split and joint/shared audits. Initially the CMA had supported a structural split and mandatory joint audits. Yet within two weeks of the BEIS Committee's presentation of these recommendations to the House of Commons their initial proposal to have a structural split was being weakened. While joint audits were still recommended by the CMA to the Secretary of State, the persistent lobbying efforts of the Big Four and other stakeholders had led the CMA to update their final report concerning their stance on the separation of the audit and non-audit businesses:

*"... we also considered other variants of separation [as opposed to the structural separation being proposed above] that could be effective, **but less costly**, in addressing our concerns. We said that a possible solution could be an operational split between the audit and non-audit parts of the firm, with separate profit pools and separate governance arrangements for audit and non-audit services respectively. **Having reviewed stakeholder responses** to the update paper and other evidence, **we recommend an operational split as our preferred remedy.**"*

(Page 188 in Statutory audit services market study Final Report 18 April 2019)<sup>29</sup>

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<sup>27</sup> Last accessed online on 16 September 2022 from:

<https://publications.parliament.uk/pa/cm201719/cmselect/cmbeis/1718/1718.pdf>

<sup>28</sup> Last accessed online on 16 September 2022 from:

<https://publications.parliament.uk/pa/cm201719/cmselect/cmbeis/1718/1718.pdf>

<sup>29</sup> Last accessed on 16 September 2022 from:

[https://assets.publishing.service.gov.uk/media/5d03667d40f0b609ad3158c3/audit\\_final\\_report\\_02.pdf](https://assets.publishing.service.gov.uk/media/5d03667d40f0b609ad3158c3/audit_final_report_02.pdf)

Persistent lobbying by the Big Four and other stakeholders in two subsequent consultations launched by the government in July 2019<sup>30</sup> and March 2021<sup>31</sup> led to proposals being further diluted by the time the government published the final proposals for legislation in May 2022. Three years after the January 2019 inquiry, the final paper stated:

*“...the Government had decided **not to take forward the CMA’s proposal to introduce a requirement for separate profit pools** between the audit and non-audit divisions within firms on a statutory basis... the Big Four firms are currently working to implement an operational separation on a voluntary basis, and the Government is grateful to the FRC for developing **voluntary principles** for operational separation in advance of legislation.*  
(Page 114 in Restoring trust in audit and corporate governance published in May 2022)<sup>32</sup>

An operational split would now be ‘voluntary’<sup>33</sup>. Instead of mandating joint audits, they now recommended a “‘managed **shared audit**’ requirement” to be “introduced on a phased basis” (Page 108 in Restoring trust in audit and corporate governance published in May 2022)<sup>34</sup>. Moreover, the government bill for audit reforms remained in draft form, much to the frustration of Mark Pawsey (still then serving on the BEIS Committee):

*“I was disappointed to see that the audit reform Bill in the Queen’s Speech remains only in draft form. I want to see swift action to ensure that the full Bill comes to the House as promptly as possible.”<sup>35</sup>*

Instead of the much-needed post-crisis reform, it appears that successful lobbying by the Big Four audit firms has ensured that the status quo prevails, again (see also Guénin-Paracini & Gendron, 2010; Horton et al., 2018; Humphrey et al., 1992; Malsch & Gendron, 2011; Sikka, 2009).

## 5. Discussion and conclusion

The audit profession in the UK is facing a crisis of legitimacy and it is this legitimacy which forms the basis for its political mandate and license to practice. In this paper we examine an enquiry whereby the leadership of the profession, under considerable scrutiny by lawmakers, is forced to defend its legitimacy rhetorically through an “agentic” process where “meaning is actively negotiated” (Suddaby et al., 2017, p. 460). We illustrate and interpret the use of strategic rationalisations within this negotiation process through the theoretical lens of deviance theory. We concur with Guénin-Paracini and Gendron (2010, p. 134) who highlight an important paradox namely, that as the legitimacy crisis continues, and as auditors continue to be blamed for failing to prevent corporate financial scandals, the profession seems to become a “more powerful and influential model of administrative control”. The Big Four’s influence in global capital markets has grown, most notably via their expansive MDP business model in which advisory work has become the prominent source of revenue. They have also shown success in resisting regulatory change in local jurisdictions which would threaten their

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<sup>30</sup> <https://www.gov.uk/government/consultations/statutory-audit-services-initial-consultation-on-the-competition-and-markets-authority-recommendations>

<sup>31</sup> <https://www.gov.uk/government/consultations/restoring-trust-in-audit-and-corporate-governance-proposals-on-reforms>

<sup>32</sup> Last accessed on 16 September 2022 from

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1079594/restoring-trust-in-audit-and-corporate-governance-govt-response.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1079594/restoring-trust-in-audit-and-corporate-governance-govt-response.pdf)

<sup>33</sup> In May 2022 EY announced its intention to voluntarily split its audit and advisory (non-audit) divisions across all offices globally. EY is the first of the audit firms to do so, but the others are expected to follow suit (Jones, 2022). EY have chosen a full structural split of their businesses (as opposed to a ‘softer’ operational split) but have done so as an explicit strategy to secure more work. By reducing the conflicts of interests and associated regulatory restrictions on accepting clients, EY is voluntarily adopting the structural split to grow its revenue and profitability across both spin-off divisions (The Guardian, 2022a). Whereas our findings showcase the reluctance of the Big Four in 2018/19 to split their audit and advisory businesses, we believe that, by 2022, EY views the move as expedient, choosing to do it before its competitors. Again, this demonstrates the Big Four’s highly commercialist priorities.

<sup>34</sup> Last accessed on 16 September 2022 from

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1079594/restoring-trust-in-audit-and-corporate-governance-govt-response.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1079594/restoring-trust-in-audit-and-corporate-governance-govt-response.pdf)

<sup>35</sup> Last accessed on 16 September 2022 from <https://www.theyworkforyou.com/debates/?id=2022-05-18b.748.0>

dominance. An ongoing area of research is to understand how auditors are generally successful in doing so (Canning & O'Dwyer, 2013; Harber et al., 2022; Malsch & Gendron, 2011).

In the UK the profession, because of its legitimacy-deficit position in the aftermath of recent corporate failures, has had to 'walk a tightrope' between demonstrating genuine remorse and being supportive of meaningful change while denying ultimate responsibility for what could be described as a crisis of confidence in their role. Reflecting on the GFC, Sikka (2009, p. 873) accurately predicted how the profession, as it was then, would rely on simply revising practice standards, codes of ethics and adopting marginal regulatory interventions to navigate challenges to their legitimacy. This superficial change is precisely what appears to be happening here again more than 10 years later.

In this paper we show how audit executives are skilled in rhetorically 'neutralizing' the accusations laid against them, by essentially not only denying culpability but also framing themselves as the solution – willing to battle against the adversity faced to achieve meaningful improvement. We showcase how the audit executives make varied and continual use of moral rationalisations and abstractions to deflect blame<sup>36</sup>. Despite appearing to pivot to embrace change, the Big Four are in fact doing what they have always done, "attaching their expertise to values with general cultural legitimacy" (Abbott, 1988, p. 16) and signalling value congruency with the public's demand for persistent integrity and expertise. Expertly denying responsibility in this manner, and recasting the 'true' meaning-structure of events (Nelson & Lambert, 2001) are core to their strategic positioning. Without such a positioning they cannot present themselves as both victim ('it is complex!'; 'you do not understand!') and hero ('we will do more!'; 'we have the expertise and the resolve!').

Although not the focus of our investigation we acknowledge the possibility of the "innovative argument" presented by Guénin-Paracini and Gendron (2010), whereby the auditors do not only achieve legitimacy by way of 'persuasive endeavours'(as we showcase), but by playing out the unspoken 'ritual' as 'sacrificial victims', a social phenomenon whereby they are reprimanded, sanctioned and even ostracized for a time, before having their legitimacy re-established to restore order. Whereas our paper shows the rhetoric and positioning of auditors to *avoid blame*, the fact that audit firms have been chastised to this degree only to allow 'business as usual' again, perhaps indicates another example of auditors as societal 'scapegoats', as the modern pharmakoi of Guénin-Paracini and Gendron (2010). Our data also provides an opportunity for comparison with the legitimation strategies employed by audit executives after the GFC, as examined by Whittle et al. (2014). As expected in our data, and as shown by Whittle et al. (2014, p. 799), "the Big Four presented themselves as 'disinterested' or 'legitimately interested'", meaning that they appropriated legitimate incentives (towards audit quality and integrity) and disavowed illegitimate biases (such as profit-dominance).

*Quality is presented as a transcendent ideal that drives their behaviour, making them "above the fray"... Quality, as an avowed 'higher' motive, enables the Big Four to distance themselves from the accusation of having an overly selfish, illegitimate motive in the present state of market concentration and competition. (Whittle et al., 2014, p. 795)*

Rather than interpreting the rhetorical defences in terms of strategies of de-legitimation and re-legitimation, we believe that the neutralization techniques typology, supplemented with the 'grammar of legitimation', provide additional insights. Consistent with the rhetoric of academics accused of bullying in Nelson and Lambert (2001), auditors are capable of complex rationales, undergirded by implicit and explicit appeals to moral virtues. A central feature of the auditor discourse was what Nelson and Lambert termed 'evidentiary solipsism'; a sophisticated combination of rhetorical techniques that effectively denies the ability of regulators and the public (non-experts) to properly diagnose the root causes to the perceived problems. As long as regulators allow auditors the freedom to provide 'the interpretation' of the nature of the problem and events, in deference to their 'integrity and expertise', policy proposals risk being ineffective, diluted or postponed. It is this claimed 'expert status', granted implicitly to auditors, and as we show in this paper, perhaps too readily, which allow for what some may consider too little sanction for poor performance. The continuance

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<sup>36</sup> While the discourse shows that the BEIS Committee generally consider the auditors' rhetorical defence against accusations as 'weak', this rhetoric may be instrumental within the profession and amongst their supporters, to maintain an 'esprit de corps', a wider commitment to a project that ultimately aims to maintain status quo.

of the social contract is, ironically, being used by the Big Four to steer regulators and legislators away from unwanted regulatory interventions which would probably serve the public interest.

Evidentiary solipsism, grounded in ‘expert status’, was perhaps best displayed in the argument from the Big Four against splitting their firms and ending their cherished MDP business model. The Big Four appeal to their non-audit expertise derived from their advisory business which is (allegedly) instrumental in maintaining audit quality. They claim that this advisory expertise *originates* ‘in house’, making it a somewhat ‘holy alliance’ that should not be disrupted.

*...the extensive use of specialists... skills that are, to a large extent, developed in the advisory practice and then engaged to support audit. (Deloitte02)*

Without the MDP model they claim less ‘resilience’. References to ‘resilience’ demonstrate the rhetorical feature which Nelson and Lambert (2001, p. 103) call “emotional obfuscation”. This entails using words and phrases that convey established moral ideals and virtues. The Big Four executives argue that splitting their MDP model would only further ‘their struggle’ to ‘attract’ ‘young talent’ and provide attractive ‘career opportunities’ for staff.

Our findings are consistent with those of Guo (2016, p. 111), showing how auditors portray themselves as “versatile experts”, able to use their integrity and expertise (professionalism) to construct what Guo calls “Chinese Walls” to shield audit quality from conflicts of interest. The auditors create “an expert-work identity” (Guo, 2016, p. 99) and use this to make a case against reform. It is no surprise that the shift in institutional logics towards commercialism in recent decades (Dermarkar & Hazgui, 2022) has required auditors to re-invent the professional accountant as “indispensable superheroes of the business world ... in short, a powerful superhero, a resolute leader strongly motivated by the prospect of success and attractive compensation” (Picard et al., 2014, p. 106).

There were multiple references to auditors’ commitment to professional ideals as ‘the way things are’. This was most notable in their adamant proclamation that profit would always be sacrificed in pursuit of audit quality. We agree with Dermarkar and Hazgui (2022, p. 11) that these “oblique references” to their commitment to professional ideals are a form of moral rationalizing, “while at the same time, delegitimizing the perception” that professional and commercial incentives are in conflict. Auditors want to be perceived as ‘inherently professional’ and advocate this position using theoretical rationalizations (van Leeuwen, 2007). The audit executives want the BEIS Committee and the public to believe that their commercialism enhances audit quality.

The Big Four conceded ground on less disruptive reform proposals such as “more choice in the marketplace” (PwC01) but demonstrate more resistance to splitting their MDP business (notwithstanding EY’s announcement in 2022; refer to footnote 33). An easy concession was to agree to relinquish all non-audit work on audit clients, a decision KPMG was quick to state it had already done. We believe that less disruptive and costly reforms (such as market share caps and relinquishing non-audit services to audit clients) were ‘offered’ to the regulators as a compromise in lieu of policies such as joint audits and structural splits. KPMG illustrates how, when one firm possesses less ‘legitimacy capital’, it needs to demonstrate more resolve to the regulators by acting first (prior to its peers and prior to regulatory change) and, if need be, by compromising further than its peers. Yet, despite its posturing, even KPMG was unwilling simply to acquiesce to a full legal and economic split of their MDP business.

The reforms tabled after these interactions have not materialized, much to the disappointment of at least one of the MPs present on the Committee. Instead of joint audits, shared audits are being recommended. Instead of a full legislated structural split, the firms may now choose to ‘soft split’ on a voluntary basis. Any legislation which will require stronger reform is yet still in draft form. Our purpose here is not to conclude on whether more stringent measures are indeed required in the UK market, but rather to showcase the strategic rhetoric that appears to have, once again, proven successful for the Big Four. Through such rhetoric the Big Four are able to steer their way to favourable regulatory compromise. The obligation remains on researchers to shed light on these legitimation techniques, so that regulators can be better equipped in their quest to align audit practice, incentives and outcome with the public interest and enhance democratic control over the profession.

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